

MEMORANDUM

To: EEU E-mail Service List

From: Susan M. Hudson, Clerk of the Board

Re: Board Determination Re 2008 Unspent EEU Funds

Date: July 28, 2009

Introduction

Board Rule 5.300 provides that, after the end of each contract period between the Public Service Board ("Board") and the Energy Efficiency Utility ("EEU") contractor, the Board must calculate the amount of Uncommitted Funds¹ remaining at the end of the contract period. If the amount of Uncommitted Funds is less than five percent of the amount the Board had determined should be collected via the Energy Efficiency Charge ("EEC") in the prior year, the Board must then conduct a process for determining the distribution of any unspent funds.²

The last contract period ended on December 31, 2008, and the EEU Contract Administrator calculated the Uncommitted Funds for the 2006-2008 contract period as \$1,475,768 (which is approximately 4.8% of the 2008 budget), and the unspent funds for the same period as \$2,808,043.

I have been asked to inform you that, for the reasons set forth below, the Board has determined that the unspent funds from the 2006-2008 period shall be used as follows:

¹Uncommitted Funds are defined in PSB Rule 5.305(D)(22) as: "the amount raised by the Energy Efficiency Charge which, as of the end of the calendar year in which a contract between the Board and an entity serving as the EEU expires, exceeds the amount which the EEU has spent plus the amount which it has not spent but is obligated to pay."

²Unspent funds are different from Uncommitted Funds. Unspent funds are the budgeted amounts not actually spent during a contract period, with no adjustment for committed obligations. Unspent funds also include unrestricted interest earned on the Energy Efficiency Utility Fund during the contract period.

Type of Funds	Amount	Allocation
Efficiency Vermont Committed Funds	\$1,097,356	Carryover to 2009-2011 period; addition to Efficiency Vermont budget for that period
EEU Evaluation Committed Funds	\$90,878	Carryover to 2009-2011 period; addition to EEU evaluation budget for that period
EEU Evaluation Uncommitted Funds	\$251,457	Carryover to 2009-2011 period; addition to EEU evaluation budget for that period
City of Burlington Electric Department ("BED") Unspent Funds (including both committed and uncommitted funds)	\$110,414	Allow BED to use for smart-grid applications behind the customer meter; contingent upon receipt of matching federal funds; funds to be kept in EEU Fund until needed
Remaining Unspent Funds	\$1,257,938	Allow to be used for smart-grid applications behind the customer meter; ³ contingent upon receipt of matching federal funds; funds to be kept in EEU Fund until needed
Total Funds Allocated:	\$2,808,043	

Procedural History

On February 16, March 9, and April 16, 2009, the Board received requests from Vermont Energy Investment Corporation ("VEIC") (the contractor serving as the EEU), BED and the Vermont Department of Public Service ("DPS"), respectively, regarding the proposed use of unspent funds.

On April 24, 2009, the Board issued a memorandum requesting comments and reply comments on the EEU Contract Administrator's calculation of Uncommitted Funds and the use of the unspent funds. No interested person filed comments on the EEU Contract Administrator's calculation of Uncommitted Funds. On May 15, 2009, the Board received comments from International Business Machines Corporation ("IBM") and Vermont Electric Cooperative, Inc. ("VEC"). On June 12, 2009, the Board received reply

³Vermont's electric distribution utilities, Vermont Energy Investment Corporation, the Vermont Office of Economic Stimulus and Recovery, and the Vermont Department of Public Service are working together to develop grant applications in response to Funding Opportunity Announcements issued by the U.S. Department of Energy related to the development of a smart grid.

comments from VEC. On June 15, 2009, the Board received reply comments from the DPS.

On July 9, 2009, the Board held a workshop to further discuss the comments received. Attendees at the July 9, 2009, workshop included: BED, Central Vermont Public Service Corporation, the DPS, Green Mountain Power Corporation ("GMP"), IBM, VEC, VEIC, the Vermont Office of Economic Stimulus and Recovery ("OESR"), the Vermont Public Interest Research Group ("VPIRG"), Washington Electric Cooperative, Inc., the EEU Contract Administrator, and the Group of Municipal Electric Utilities ("GMEU").⁴

Interested Persons' Positions

Here is a summary of the positions expressed by interested persons on the uses of the unspent funds:

- VEIC requested that the unspent funds be carried over to the 2009-2011 contract period.
- The DPS requested that it be allowed to carry over \$342,336 of unspent EEU monitoring and evaluation funds to the 2009-2011 contract period. This includes \$90,878 of committed funds (for work that is already under contract) and \$251,457 of uncommitted funds.
- The DPS and OESR requested that the Uncommitted Funds be used as matching funds to support applications by Vermont's utilities for two U.S. Department of Energy grants for smart-grid investments and demonstration projects.⁵ Specifically, the DPS and OESR requested that the Board allow the Uncommitted Funds to be used to establish a revolving fund (including the federal match dollars) that would be used to purchase equipment as part of a smart grid to be installed on the customer side of the meter in residences.⁶ OESR stated that it recommended that the Board condition this use of the Uncommitted Funds upon the receipt of the matching federal funds, and that if

⁴GMEU includes: Barton Village Inc. Electric Department; Village of Enosburg Falls Water & Light Department; Town of Hardwick Electric Department; Village of Hyde Park Electric Department; Village of Jacksonville Electric Department; Village of Johnson Water & Light Department; Village of Ludlow Electric Light Department; Village of Lyndonville Electric Department; Village of Morrisville Water & Light Department; Village of Northfield Electric Department; Village of Orleans Electric Department; Town of Readsboro Electric Light Department; and Swanton Village Inc. Electric Department.

⁵The DPS originally requested that the Uncommitted Funds be used to support the Home Area Network/Plug-in Hybrid Electric Vehicle/Vehicle to Grid program ("Program") that is being developed in conjunction with the U.S. Department of Energy's Smart Grid Demonstration Project grant opportunity. However, at the workshop, the DPS stated that it was modifying its request as a result of ongoing discussions with the group working on the smart-grid grant applications.

⁶OESR noted that the revolving-fund proposal may be refined as the smart-grid grant application is developed.

such federal funds were not received, OESR would support the Board making a new determination regarding the use of the Uncommitted Funds.

- VEC supported the proposal by the DPS and OESR.⁷
- VPIRG supported the proposal by the DPS and OESR.
- BED requested that it be allowed to carry over \$110,414 of unspent funds to the 2009 program year to fund delivery of efficiency services. Alternatively, BED would like to use this portion of the unspent funds as matching funds for grants related to smart-grid initiatives that would be likely to provide benefits to its customers.⁸
- IBM requested that the Uncommitted Funds be used to reduce the Energy Efficiency Charge for 2010. In the alternative, IBM recommends that the Uncommitted Funds be used to develop smart-grid applications.

Discussion

The Board has considered all the interested persons' recommendations regarding the possible uses of the unspent funds. The \$2,808,043 of unspent funds can be divided into five categories: (a) Efficiency Vermont committed funds (\$1,097,356); (b) EEU evaluation committed funds (\$90,878); (c) EEU evaluation uncommitted funds (\$251,457); (d) BED unspent funds (\$110,414); and (e) any remaining unspent funds (\$1,257,938). This memorandum addresses each category of funds in turn.

A. Efficiency Vermont Committed Funds

Large commercial and industrial projects can take a year or more to implement. The Board has encouraged Efficiency Vermont to maintain a "pipeline" of such projects to avoid a disruption in energy efficiency services for large projects near the end of an EEU contract cycle. This pipeline results in projects not yet complete for which Efficiency Vermont has committed to pay an incentive to the customer. At the end of 2008, Efficiency Vermont had committed to pay \$1,097,356 in incentives for projects that were underway. The Board concludes that the funds required to pay these committed customer incentives should be carried forward to the next contract cycle, and Efficiency Vermont's 2009-2011 budget shall be increased accordingly.

B. EEU Evaluation Committed Funds

The DPS has committed to pay \$90,878 for EEU evaluation projects that were intended to be completed in 2008. These funds are being used for their original purpose; if

⁷VEC was the first party to request that the Uncommitted Funds be used to support the Program. At the workshop, VEC stated that it supports the DPS's and OESR's modification of VEC's original request.

⁸According to BED, the Home Area Network program originally proposed by VEC and the DPS is not likely to be cost-effective within its service territory.

they were not carried forward to the 2009-2011 time period, the DPS's evaluation work for that time period could be adversely affected. Therefore, the Board concludes that the \$90,878 shall be carried forward and added to the DPS's 2009-2011 EEU evaluation budget.

C. EEU Evaluation Uncommitted Funds

There are \$251,457 in uncommitted EEU evaluation funds for the 2006-2008 time period. The DPS has requested that these funds be carried forward to the 2009-2011 time period because:

- (1) Based on past experience, the DPS expects that the cost of the triennial market assessment in 2011 will increase significantly.
- (2) In 2009, for the first time, the DPS will be conducting an evaluation of the EEU's geotargeting efforts. This will be in addition to the type of work that has been conducted in past evaluation cycles.
- (3) The Board approved the DPS's request to use \$106,000 of EEU evaluation funds to contribute to the DPS's evaluation of the Green Mountain Power Energy Efficiency Fund because such evaluation is expected to create significant value for statewide ratepayers.⁹ This evaluation expenditure is also in addition to the type of work that has been conducted in past evaluation cycles.

The Board has determined that, in light of the three reasons set forth above, it is reasonable to carry forward the \$251,457 in unspent EEU evaluation funds to the 2009-2011 time period, and increase the evaluation budget for that time period accordingly.

D. BED Unspent Funds

There are \$110,414 in unspent funds that were collected from BED's ratepayers for the delivery of EEU services in BED's service territory. These include both committed and uncommitted funds; historically, the Board has not asked BED to track its committed customer incentives, and it does not have information regarding the amount of those incentives at the end of 2008. Therefore, the Board will treat both BED's committed and uncommitted funds in the same manner.

BED has asked that the unspent funds be carried forward to its 2009-2011 budget (either used to reduce 2010 EEC collections, or as an addition to its 2009-2011 budget), or that BED be allowed to use the funds as matching funds for portions of the smart-grid project that it intends to implement in its service territory.

For the reasons set forth below in the next section regarding the remaining unspent funds, the Board is persuaded that it is reasonable for BED to use its unspent funds as matching funds for portions of the smart-grid project that it intends to implement in its service territory, provided such applications are behind the customer meter (either

⁹Docket 7142, Order of 12/29/08 at 4.

residential or non-residential). The unspent funds shall remain in the EEU Fund until such time as they are needed. If matching federal funds are not received, the Board will reconsider how the unspent funds should be used.

The Board recognizes that BED may wish to use the unspent funds to match portions of the smart-grid project that are not behind the customer meter. At this time the Board concludes that it is appropriate to restrict the use of the unspent funds to behind-the-meter applications because that is the area that has historically been addressed by EEU and utility energy efficiency programs. Traditionally, investments on the utility side of the meter have not been paid for through energy efficiency programs or EEC collections. However, the Board recognizes that there are differences between BED's service territory and other Vermont electric utilities' service territories. If BED wishes to use the unspent funds to match some other portion of the smart-grid project, or for some other purpose, it may ask the Board to allow a different use of the funds. Any such request should be accompanied by a description of the proposed use of the funds, and an explanation of why it is appropriate to use EEC collections to pay for the proposed use.

E. Remaining Unspent Funds

There are \$1,257,938 in remaining unspent funds. At the July 9 workshop, there was considerable discussion about using these funds as matching funds to support applications by Vermont's utilities for two U.S. Department of Energy grants for smart-grid investments and demonstration projects. VEC, the DPS, OESR, and VPIRG explicitly supported this use of the remaining unspent funds. IBM stated that it preferred that the remaining unspent funds be used to reduce the 2010 Energy Efficiency Charge, although IBM also stated that smart-grid applications provided valuable information to enhance efficiency programs. No other party opposed this use of the remaining unspent funds.

The Board has considered, first, whether such use is consistent with the statutory goals of 30 V.S.A. § 209. Pursuant to Section 209(d)(3), balances in the EEU Fund shall be used for the support of energy efficiency programs that meet the requirements of Section 218c. Section 218c defines comprehensive energy efficiency programs as encompassing energy efficiency, conservation, and load management. VEC described the utilities' proposed smart-grid projects in its June 12, 2009, filing. OESR clarified at the workshop that it is proposing that the remaining unspent funds be used to support behind-the-meter efforts related to these projects. Such a use clearly falls within the parameters set forth in Section 218c. Therefore, the Board concludes that using the funds for this purpose is consistent with Vermont law.

The Board also considered whether using the remaining unspent funds to reduce the 2010 Energy Efficiency Charge (as was recommended by IBM) would provide meaningful rate relief to ratepayers. At the workshop, both the DPS and GMP presented the results of their independent analyses regarding the rate impacts of using the remaining unspent funds in this manner. Their results were generally consistent. According to the DPS's

calculations, if \$1,029,656 were returned to customers, on average, rates would decrease by 0.145% overall. The average bill savings would be:

- Residential – \$0.12 monthly, \$1.46 annually
- Commercial – \$0.64 monthly, \$7.64 annually
- Industrial – \$52.16 monthly, \$625.98 annually

If \$1,371,992 were returned to customers, on average, rates would decrease by 0.193% overall. The average bill savings would be:

- Residential – \$0.16 monthly, \$1.95 annually
- Commercial – \$0.85 monthly, \$10.18 annually
- Industrial – \$69.51 monthly, \$834.10 annually

The actual amount of remaining unspent funds is between the two amounts used in the DPS's calculations; thus the expected average bill savings would be between the two sets of results.

The Board concludes that the benefit to customers of these slightly lower rates is more than offset by the benefits associated with leveraging matching federal funds to implement smart-grid activities behind the meter that will allow the utilities to evaluate the future potential for further such activities in Vermont. Furthermore, if the matching federal funds are not received, the Board will be able, at that time, to reconsider how the remaining unspent funds should be used.

The Board also considered whether both residential and non-residential customers would benefit from this use of the remaining unspent funds, even though the proposal is to use the funds to purchase equipment that would be installed behind the customer meter in residences. The Board is persuaded by OESR's comments at the workshop that the proposed smart-grid project includes many other aspects, in addition to this one that is focused on residential customers, and that over the long term the contemplated activities with residential customers may also benefit non-residential customers.

For these reasons, the Board concludes that the remaining unspent funds shall be used as matching funds for smart-grid grant applications, specifically to support behind-the-meter aspects of those applications. These funds shall remain in the EEU Fund until such time as they are needed. If matching federal funds are not received, the Board will reconsider how the remaining unspent funds will be used.